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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 25, 2024**

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Last week's S&P 500 Index: +1.4%

The beginning of the beginning

Key takeaways

- The important rate-cutting concept was not the ultimate size of the first cut but that it represents the first in a series of cuts.
- We expect this series of rate reductions to help spark broader market opportunities next year.

Our regular readers know we had been recommending that investors not get hung up on whether or not the Federal Reserve (Fed) would cut interest rates 25 or 50 basis points this month (100 basis points, or bps, equals 1%). Last week's Federal Open Market Committee (FOMC) monetary-policy meeting produced a 50 bps cut, and the equity market cheered. And while the fed funds futures market was pricing in a 58% probability of a half-point cut the day before according to Bloomberg data, many investors were still surprised at the size of last week's cut.

But we want to reiterate that the important concept to latch onto over the past two months was not the ultimate size of the first cut but that the September policy meeting represented the first in what is likely to be a series of Fed rate reductions expected to last well into next year. If you want to get a feel for how some Fed officials view the path forward, look no further than Federal Reserve Bank of Chicago President Austan Goolsbee. He stated this week that in order to support economic growth and the labor market, "That likely means many more rate cuts over the next year." It's not an exaggeration to say that is an unusually strong statement from any sitting Fed official.

So what it boils down to is we are at the very beginning of what market participants believe could be 200 bps or more of cuts between now and the end of next year. Given that there are two more meetings this year and then eight in 2025, there likely won't be a cut at every meeting over that time frame. However, we do believe our central bankers will cut 25 bps at both of the remaining FOMC meetings this year (November and December) for a total of 100 bps of cuts in 2024. Then, we believe there will be 75 bps of cuts in 2025, which is less than the futures market is currently pricing in. Timing on the cuts next year is difficult to determine at this point.

While we are looking for the economy to slow to a more moderate pace into year-end, our base case does not include a recession. Even with that view, we are aware of potential risks in coming months as the economy continues to slow (interest rate cuts won't immediately reverse the slowdown), the U.S. elects a new president, and tensions in the Middle East and Ukraine appear to be increasing. While we await the economy's turn to stronger growth, we want to keep our focus on quality large-cap domestic equities over riskier small caps and U.S. equities over international. On the international front, we prefer developed international over emerging markets.

Eventually, likely as we move through the first and second quarters of 2025, we look for the domestic economy to respond positively to the series of rate cuts we expect. Most other major global central banks are also either cutting rates or contemplating doing so. That should help S&P 500 earnings as approximately 35% of revenues at the index level come from outside the country.

Last week's Fed rate cut is just the beginning in what is likely to be a series of rate reductions that should help spark broader opportunities next year.

Risk considerations

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